

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

June 4, 2004

11 North Washington Street, Suite 250
Rockville, Maryland

Board Members Present: Stephen Farber, Chair
 Arthur Spengler, Vice-Chair
 Tim Firestine
 Sharon Cayelli
 Gino Renne
 Sandra Kaiser
 Beverley Swaim-Staley

Staff: Linda Herman, Executive Director
 Joanne Tsai, Accountant

Others Present: Mark Brubaker, Wilshire Associates
 Connie Donovan, General Counsel to the Board

CALL TO ORDER

Mr. Farber called the open session of the Board to order at 11:00 a.m.

APPROVAL OF MINUTES

The Board unanimously approved the minutes of the March 5, 2004 open session.

FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK

Mr. Brubaker discussed the performance of the Employees' Retirement System as of March 31, 2004 and noted the total fund performance ranked at the 17th percentile when compared to Wilshire's Public Fund Universe. The fund's outperformance was attributed to the strong performance of the emerging markets and high yield sectors.

INVESTMENT COMMITTEE REPORT

Mr. Barnard discussed the Investment Committee Report.

Adams Street – 2005 Funding: Ms. Herman presented the recommendation to invest \$20 million in Adams Street 2005 Global Fund Offering. Due to current market conditions, staff with the concurrence from Wilshire, recommend the Board commit future monies to the 2005 global fund. The following resolution was moved and approved with Mr. Spengler and Mr. Firestine voting against:

0406-01 Resolved, That the Board approves a commitment of \$20,000,000 to Adams Street 2005 Global Fund Offering.

International Equity Structure: Ms. Herman discussed the recommended changes to the Board's Manager Funding Policy, including: increasing the allocation to Marathon to 47.5%, decreasing Capital Guardian to 47.5% and permitting Marathon to invest up to 15% of their portfolio in emerging markets. Mr. Brubaker discussed Wilshire's analysis of the recommendation based on historical risk and return attribution analysis. Marathon and Capital Guardian have different investment styles and methodologies resulting in a portfolio of stocks that would be broadly diversified. The Board approved the following resolution:

0406-02 ***Resolved, That the Board approves the changes to Marathon's guidelines to permit up to 15% of the portfolio to be invested in emerging markets. That the Board approves changing the Manager Funding Policy by reducing the allocation of Capital Guardian to 47.5%, increasing the allocation to Marathon to 47.5%, and maintaining the weight of the BGI EAFE Fund at 5%. The changes will result in the following rebalancing:***

- **Capital Guardian** **(\$10,200,000)**
- **BGI EAFE Fund** **\$ 8,200,000**
- **Marathon** **\$ 2,000,000**

TIPS/Fixed Income Allocation: Ms. Herman discussed the impact of increasing the allocation to the TIPS sector from 5% to 10%. Mr. Brubaker presented Wilshire's analysis of the change in allocation which results in the lowering of the System's overall risk, better diversification by expanding the investment opportunities for Bridgewater, and improved liquidity, with the return expectations remaining the same. Wilshire uses a passive index for attribution purposes and would assume that active management would produce a higher return than the passive index. The Board approved the following resolution:

0406-03 ***Resolved, That the Board approves changing Bridgewater's guidelines to include a global mandate. That the Board approves changing the Asset Allocation Policy to reflect a 25% allocation to Fixed Income and a 10% allocation to TIPS to be implemented over the next nine months. The first transfer will take place by September 30 and will result in the following rebalancing:***

- **Bridgewater** **\$44,000,000**
- **JP Morgan** **(\$14,000,000)**
- **BlackRock** **(\$16,000,000)**
- **WR Huff** **(\$14,000,000)**

Retirement Savings Plan – Freedom Funds: Ms. Herman discussed Fidelity's request to add four new Freedom Funds with target retirement dates of 2005, 2015, 2025, and 2035 to the other funds currently being offered. The Board currently provides six Freedom Fund options. After discussion, the Board approved the following resolution:

0406-04 ***Resolved, That the Board approves adding the four new Freedom Funds as both the default fund and investment options offered within the Retirement Savings Plan fund line-up.***

Semi-Annual Risk Report: Ms. Herman discussed the results of the semi-annual risk report and quarterly reviews of the investment managers' portfolios for risk and compliance. The report noted areas of non-compliance with Board established guidelines, including securities held by BlackRock due to recent downgrades.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Firestine presented to the Board the report of Administrative Committee activities.

Northern Trust – Contract/Annual Review: Mr. Firestine discussed the annual review of Northern's contract included in the Board package. Staff recommended the Northern Trust contract be amended to be terminable at will with a required annual review of services provided and fees. Additionally, staff recommends reviewing the investment vehicle used for investing the cash collateral. After discussion, the Board approved the following resolution:

0406-05 Resolved, That the Board approves amending the Northern Trust contract as follows:

- **That the contract be terminable at will;**
- **That the Board conduct an annual review of services and fees; and,**
- **That staff analyze the impact to the portfolio of changing the investment vehicle used for investing the cash collateral.**
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Quarterly Review - Budget versus Actual Expenses - 3/31/04: Ms. Herman reviewed the budget versus actual expenses for the plans as of March 31, 2004. She noted the increase in costs related to benefit processing expenses for the ERS. Ms. Herman updated the Board on the continuing negotiations with the County's Department of Public Works & Transportation's Facilities Division regarding the Board's request to reduce the monthly rent paid due to the reduction in staff or the possibility of moving the Board's offices back to the Executive Office Building.

Due Diligence/Continuing Education Report: Mr. Firestine presented the quarterly report of due diligence and education expenses as of March 31, 2004, noting there was one request for travel for the next quarter. The Board accepted the report as presented.

Retirement Savings Plan – Investment Counseling Program: Ms. Herman discussed the results of the analysis prepared by staff on the services provided by American Express Tax and Business Services and the employee participation in the program. Participation levels have dropped significantly over the past few years, down from high of 30% in 1997 to less than 3% in 2003. In an attempt to increase participation in the program, staff will continue their quarterly announcements of upcoming seminars to participants, expand the group sessions to specific topics, and have American Express mail quarterly reminder cards to participants who attended sessions in the past year.

Aetna Contract: Mr. Firestine presented the memorandum from the general counsel regarding the allocation of duties between the Board and the CAO for the payment of ERS benefits. Ms. Donovan recommended the payment for the services provided by the Aetna contract be transferred from the Board to the Office of Human Resources to better align the duties established within the County Code. After discussion, the Board approved the following resolution:

0406-06 Resolved, That the Board approves transferring the payment for the services provided by Aetna, the benefit paying agent for the ERS, to the Office of Human Resources to align the duties established within the County Code. The Board's FY 05 budget will be amended to reflect the budgeted amounts being transferred to OHR.

Special Resolutions: The Board reaffirmed the following special resolutions:

#0404-1 – Employees' Retirement System – Rebalancing

The resolution was approved by all Board members.

OTHER BUSINESS:

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 11:50 a.m. The Board moved into executive session to discuss a personnel matter.

Respectfully submitted,

Sandra P. Kaiser, Secretary